

# The New Medicare Law

## Drugs, Outpatient Therapy, New Wellness Benefits and Changes to Your Costs

While the recently passed Medicare Modernization Act offers some information about what the new drug benefit might look like, no one yet knows exactly how it will work, which drugs will be covered or how you will pay for coverage. The answers and more are left up to the federal agency that oversees Medicare (Centers for Medicare and Medicaid Services), which will write the regulations governing the benefit, and private companies as they create the plans that offer the drug benefit. Below are the answers currently available to some of the most frequently asked questions about the new law.

### 1. When will I be able to get drug coverage from Medicare?

The new drug benefit will begin on January 1, 2006 with the addition of a new part to Medicare: Part D. A Medicare drug discount card went into effect on June 1, 2004.

### 2. Will the new Medicare drug benefit help me?

The drug benefit may save you money if do not currently have drug coverage and your drug costs are over \$810 a year (the break-even point given the currently estimated monthly premium of \$35).

However, whether you will save money will depend upon three factors:

1. Whether insurance companies in your area offer coverage at a reasonable premium;
2. Whether the drug benefit from an insurance company (or from the government if a private plan is not available in your area), will cover the drugs you need; and
3. Whether you can get your drugs cheaper through a discount drug plan or buying them from Canada.

### 3. What premium will I pay for drug coverage?

In addition to your Part B premium, you will have to pay a monthly premium for Part D coverage, which will be automatically taken out of your Social Security check. Some have estimated it will be about \$35 a month (\$420 a year) in 2006. You may also have to pay an additional premium to the private insurance company that offers the prescription drug plan in your area. No one yet knows what that monthly premium may be because no insurance company has ever offered a stand-alone drug plan before. Different companies will likely charge different premiums and cover different drugs. Premiums can rise a lot from one year to the next.

**If your monthly income and assets are low you will have no monthly premium (see [question 5](#)).**

### 4. Will I have full drug coverage?

No. Your drug coverage will be limited. You will have to pay a monthly premium, an annual deductible and varying amounts of co-insurance, depending on the total costs of the drugs you buy. **After you have spent \$3,600 out-of-pocket for covered drugs**, your costs will go down significantly. But if you buy a drug that is not on your plan's formulary—list of covered drugs—or you buy it from another country, that cost will not count toward the \$3,600 in out-of-pocket costs.

Here is the breakdown of the drug benefit as described in the new law. In 2006, on top of the monthly premium, you will pay:

- The first \$250 of your drug costs each year (deductible);
- 25% of the cost of covered drugs between \$251 and \$2,250;
- 100% of the cost of covered drugs between \$2,251 and \$5,100; and
- 5% of the cost of covered drugs between above \$5,101 (or a copayment of \$2 for covered generics and \$5 for covered brand-name drugs—whichever is greater).

Use the chart below to determine your out-of-pocket drug costs under the basic government plan in 2006 based on your current annual drug costs.

**After 2006, your premiums, deductible and out-of-pocket costs will increase annually.**

<b>Your Annual Drug Costs</b>	<b>You Pay</b>	<b>Medicare Pays</b>
<b>Up to \$250</b> (annual deductible)	<b>Monthly premium</b> + <b>100%</b> of drug costs	Nothing Nothing
<b>\$251 and \$2,250</b>	<b>Monthly premium</b> + <b>\$250 deductible</b> + <b>25% coinsurance</b> for drug costs	Nothing Nothing 75%
<b>\$2,251 and \$5,100</b>	<b>Monthly premium</b> + <b>\$750</b> (\$250 deductible + \$500 coinsurance for drugs \$251 - \$2,250) + <b>100%</b> (for drugs \$2,251 - \$5,100)	Nothing \$1,500  Nothing
<b>Over \$5,101</b>	<b>Monthly premium</b> + <b>\$3,600</b> (\$250 deductible + \$500 for drugs \$251 - \$2,250 + \$2,850 for drugs \$2,251 - \$5,100) + <b>\$2 for generics and \$5 for brand-name drugs,</b> <b>Or</b> <b>5% coinsurance</b> for any drug (whichever is greater)	Nothing \$1,500  95%

You may only see a plan exactly like the one outlined above if no private company is offering a drug plan in your area and you get coverage directly through the government. Private companies can create their own set of criteria for coverage as long as the overall package is at least as good as the one outlined above. However, you must spend \$3,600 out-of-pocket for covered drugs before your out-of-pocket costs are reduced substantially (catastrophic coverage).

## **5. Can I buy insurance to fill the gaps in Medicare drug coverage?**

You may be able to. Private companies that offer a Medicare drug plan (the Part D benefit) can, if they choose, sell policies to pay some of your out-of-pocket costs. If offered at an affordable premium, these plans could help the majority of people with Medicare who have annual drug costs below \$5,100. You can only buy such a policy from the same company from which you are getting your Medicare drug benefit. However, if your income is low you may qualify for supplemental insurance through your state's prescription drug assistance program.

If your annual drug costs are high (at least \$5,100), no matter what Medicare drug plan you buy you will have to spend \$3,600 out of pocket before you can get full Medicare drug coverage (catastrophic

coverage). Once you have spent \$3,600 out of pocket for covered drugs, you will only have to pay 5 percent coinsurance for each covered drug for the rest of the year.

States are the only entities that can choose to supplement the drug costs of their state prescription drug assistance program members so that they do not have to spend \$3,600 out of pocket before "catastrophic coverage" begins. These programs are designed to help people with low incomes pay for their prescription drugs. Not all states offer these programs.

If you enroll in the Medicare drug benefit (Part D), you cannot also have a Medicare supplemental insurance policy (Medigap) that offers drug coverage. Medigap plans H, I and J, which currently offer limited drug coverage, will no longer be sold once the Medicare drug benefit begins. If you had one of these plans before January 1, 2006, you can only keep it if you choose not to enroll in the Medicare drug benefit. If later you want to drop the Medigap drug coverage and buy the Medicare drug benefit, you may have to pay a premium penalty. You are probably better off with the new Medicare prescription drug coverage than with the limited coverage offered by these plans.

## 6. Will I get extra help with drug coverage if my income is low?

Yes. If your annual income is below 150% of the Federal Poverty Level (FPL) and your assets are below specified limits (see chart below for details), you can apply for one of the programs below, which will offer less costly Medicare prescription drug coverage.

If You Have...	Your Assets	You Pay
<b>Medicaid<sup>1</sup> and income below 100% FPL</b> (below \$9,310 <sup>2</sup> a year for singles and \$12,490 a year for couples in 2004)	State Medicaid asset test applies	<ul style="list-style-type: none"> <li>• No monthly premium</li> <li>• No deductible</li> <li>• \$1/generic and \$3/brand-name<sup>3</sup></li> </ul> (no copay after \$3,600 in total annual drug costs)
<b>Medicaid and income above 100% FPL<sup>4</sup></b> (above \$9,310 <sup>2</sup> a year for singles and \$12,490 a year for couples in 2004)	State Medicaid asset test applies	<ul style="list-style-type: none"> <li>• No monthly premium</li> <li>• No deductible</li> <li>• \$2/generic and \$5/brand-name<sup>5</sup></li> </ul> (no copay after \$3,600 in total annual drug costs)
<b>Income below 135% FPL and do not have Medicaid</b> (below \$12,569 a year for singles and \$16,862 a year for couples in 2004)	Below \$6,000 for individuals and \$9,000 for couples	<ul style="list-style-type: none"> <li>• No monthly premium</li> <li>• No deductible</li> <li>• \$2/generic and \$5/brand-name</li> </ul> (no copay after \$3,600 in total annual drug costs)
<b>Income below 150% FPL and do not have Medicaid</b> (below \$13,965 a year for singles and \$18,735 a year for couples in 2004)	Below \$10,000 for individuals and \$20,000 for couples	<ul style="list-style-type: none"> <li>• Sliding scale monthly premium</li> <li>• \$50 deductible</li> <li>• 15% coinsurance (\$2/generic and \$5/brand-name copay after \$3,600 in total annual drug costs)</li> </ul>

<sup>1</sup>Institutionalized individuals with Medicaid, at all income levels, pay no copay, deductible or premium.

<sup>2</sup>Federal poverty levels change every year. They will be higher in 2006.

<sup>3</sup>Indexed to Consumer Price Index.

<sup>4</sup>This includes "spend-down" or medically needy individuals, who spend a portion of their income to become eligible for Medicaid.

<sup>5</sup>Indexed to the overall increase in drug costs.



## 7. How do I get the Medicare prescription drug benefit?

You will probably have to sign up for Part D at your local Social Security office during the initial enrollment period (six months starting November 15, 2005 during which you can enroll in Part D). The basic premium (estimated to be \$35 a month) will be deducted from your Social Security check. Then there are three possible ways to get drug coverage:

1. You keep Original Medicare and sign up for a stand-alone Medicare drug plan offered by a private company (the company may charge you an additional monthly premium).
2. You keep Original Medicare and, if no stand-alone plan is available, you get drug coverage directly from the government.
3. You enroll in or remain in a Medicare private plan, like an HMO or PPO, which will offer the drug benefit as well as all your other Medicare-covered services (the company may charge you an additional monthly premium).

No matter which plan you choose, **you can only change plans once a year.**

## 8. Do I have to enroll in the Medicare prescription drug benefit?

No. Just like Medicare Part B, which pays for doctors and other medical services, the Medicare drug benefit is voluntary. However, if you do not enroll during the six-month open enrollment period when the benefit first becomes available, you may have to pay a premium penalty if you choose to enroll at a later date. The **premium penalty** will be at least 1 percent for every month you delay enrollment (1% of the national average premium).

If you already have prescription drug coverage at least as good as Medicare's drug benefit, you will not be subject to a premium penalty. In order to avoid a premium penalty, you cannot have been without comparable drug coverage for more than 63 days.

## 9. What if I already have drug coverage through Medicaid?

If you have Medicaid, you will lose your Medicaid drug coverage and instead get drug coverage through Medicare. Medicaid will still help pay your other Medicare out-of-pocket costs, including the deductible and coinsurance, and you will not have to pay the drug plan premium. You will have to pay a copayment for each prescription. The Medicare drug benefit may not be as good as the Medicaid coverage you had.

## 10. What if I already have drug coverage through a state prescription drug plan?

States can choose to offer coverage to supplement the Medicare drug coverage for individuals eligible for the state's drug plan.

## 11. What if I already have drug coverage through a former job?

If your former employer chooses to continue to offer prescription drug coverage you can choose:

- To keep it and not buy Medicare drug coverage (you will not have to pay a premium penalty if you later lose your retiree coverage and want to enroll in a Medicare drug plan if your coverage is at least as good as Medicare's drug coverage).
- To keep it and buy Medicare drug coverage (you will still have to spend \$3,600 dollars out-of-pocket for Medicare covered drugs before the more substantial Medicare coverage begins).
- To drop it and buy Medicare drug coverage if it costs more and/or covers less.

## **12. Will the Medicare prescription drug benefit cover all drugs?**

No. Each company that offers Medicare drug coverage will have its own formulary (list of covered drugs). They will likely provide incentives for you to use generic drugs. If a drug is not on the formulary or if you buy from another country, you will have to pay the full cost yourself. In addition, the cost of drugs not on your plan's formulary will not count towards your out-of-pocket costs to qualify for the drug benefit.

## **13. What is the Medicare discount drug card?**

Between June 2004 and the end of 2005 (until the Medicare drug benefit begins), private companies will offer drug discount plans approved by Medicare. You will be able to buy a discount drug card that may save you some money on your prescription drugs. Each card will cost no more than \$30 and will offer between 10% and 25% savings on some drugs. Each card will be different, so it will be very hard to choose which card, if any, to buy. You may be better off with the discount card you are currently using, getting your drugs from the Veterans Administration if you qualify, or buying them from Canada.

If your income was below \$12,569 in 2004 (\$16,862 for a couple), the government will pay your fee for the discount card and 90 to 95 percent of the cost of covered drugs up to \$600 in 2005. You will have to pay the other 5 to 10 percent and the full plan cost of any drugs above the \$600. If you do not use the full \$600 by the end of the 2004, you can carry over the remainder to 2005.

You can compare Medicare-approved discount drug cards available in your area at [www.medicare.gov](http://www.medicare.gov) or by calling 800-MEDICARE.

## **14. Will I be paying lower prices for drugs I buy through the Medicare drug plan?**

No. Your coinsurance may be based on drug prices that are higher than you may be able to get in Canada. Each private company offering the drug benefit will negotiate individually prices for their members. If there are no private drug plans available in your area and you have Medicare drug coverage through the government, the price of the drugs you buy will probably be high because the new Medicare law specifically forbids the government from negotiating with pharmaceutical companies for lower priced drugs.

## **15. Does the new Medicare law affect what Medicare pays for outpatient therapy?**

Yes. The new law puts a two-year moratorium on the outpatient physical therapy cap that began on September 1, 2003. The suspension began on December 8, 2003, the day the President signed the bill into law, and will extend until January 1, 2006.

People who received outpatient physical therapy during the two months the cap was in effect (September 1, 2003 to December 7, 2003) will still be responsible for any bills they incurred over the limit.

The therapy limits applied to outpatient therapy received at:

- therapists' or physicians' offices;
- outpatient rehabilitation facilities;
- skilled nursing facilities for outpatients or residents who do not have Medicare-covered stays; and
- home, through therapists connected with home health agencies, when not part of a Medicare-covered home health benefit.

The limits did not apply to outpatient therapy received at hospital outpatient facilities, unless given by the hospital's Medicare-certified skilled nursing facility.

Expect administrative errors. You should immediately appeal any denials for outpatient therapy services received after December 7, 2003.

## **16. Will other benefits be added to Medicare?**

Yes, some wellness benefits will be added or expanded. As of January 1, 2005, Medicare will cover:

- One preventive physical examination in the first six months after a person enrolls in Part B (the exam will include measurement of height, weight and blood pressure, an electrocardiogram, education and counseling).
- Blood tests to screen for cardiovascular disease, including tests for cholesterol, lipids and triglyceride levels.
- Laboratory tests to screen high-risk individuals for diabetes.

## **17. Will the Medicare Part B deductible increase?**

Yes. The Part B deductible, which has been \$100 since 1991, went up to \$110 on January 1, 2005. Every year after 2005 it will increase by the same percentage as the Part B premium increases.

## **18. Will I have to pay more for the Medicare Part B premium if my income is high?**

Yes. Beginning January 1, 2007, the monthly Medicare Part B premium will be higher if your annual income is above \$80,000 (\$160,000 for couples). If so, the government will contribute less towards your Part B coverage. Currently, everyone pays 25% of the actual cost of Part B coverage; tax-payer money pays the other 75%. For example, in 2005 the actual cost of Part B coverage is \$312.80 per month per person; people with Medicare pay \$78.20 and the government pays \$234.60.

In 2007, the Part B premium will be calculated according to the sliding scale described below:

<b>Your Annual Income</b>		<b>Percentage of Actual Part B Coverage Cost You Will Pay</b>	<b>What Your Premium Would Have Been in 2005</b>
<b>Individuals</b>	<b>Couples</b>		
Below \$80,000	Below \$160,000	25%	\$78.20
\$80,000 - \$100,000	\$160,000 - \$200,000	35%	\$109.48
\$100,000 - \$150,000	\$200,000 - \$300,000	50%	\$156.40
\$150,000 - \$200,000	\$300,000 - \$400,000	65%	\$203.32
Above \$200,000	Above \$400,000	80%	\$250.24

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